SFG 2023 | LEVEL 1 | Test #12 – Solutions | ForumIAS

Q.1) Consider the following statements:
1. The Governor of the Reserve Bank of India (RBI) is appointed by the Central Government.
2. Certain Provisions in the Constitution of India give the Central Government the right to Issue directions to the RBI in public interest.
3. The Governor of the RBI draws his power from the RBI Act.
Which of the above statements are correct?
a) 1 and 2 only
b) 2 and 3 only
c) 1 and 3 only
d) 1, 2 and 3

Ans) c
Exp) Option c is the correct answer.
Statement 1 is correct. Section 8(1)(a) of the Reserve Bank of India Act, 1934, provides that there shall be one Governor and not more than four Deputy Governors to be appointed by the **central government** on the central board of RBI.
Statement 2 is incorrect. Section 7 of the RBI Act provides that **Central Government** may from time to time give such directions to the Bank as it may, after consultation with the Governor of the Bank, consider necessary in the **public interest.** Constitution of India does not provide any provision for Central Government the right to issue directions to the RBI in Public interest.
Statement 3 is correct. According to RBI Act, the Governor shall have **powers of general superintendence and direction of the affairs and the business of the RBI.** He/she may exercise all powers and do all acts and things which may be exercised or done by the RBI.
Source) UPSC CSE Pre 2021

Q.2) Regarding the currency deposit ratio, which of the following statement is ***incorrect?***
a) It is the ratio of money held by the public in currency to the money they hold in bank deposits.
b) High currency deposit ratio reflects people's high preference for savings in banks.
c) An increase in currency deposit ratio will lead to decrease in money multiplier.
d) It depends on the seasonal pattern of expenditure.

Ans) b
Exp) Option b is the correct answer.
Statement a is correct. The currency deposit ratio (CDR) is the ratio of money held by the public in currency to that they hold in bank deposits. It shows the amount of money that people hold as a proportion of aggregate deposits (bank deposits). It is the relationship between the amount of cash a person holds and the amount of money she maintains in readily accessible bank accounts, such as checking accounts. It reflects people's preference for liquidity.
Statement b is incorrect. The currency deposit ratio does **not reflect people's preference for savings.** On the contrary, it **shows people's preference for liquidity** i.e., the amount they would hold in form of currency in proportion to bank deposits.
Statement c is correct. An increase in cash deposit ratio leads to a decrease in money multiplier. An increase in cash deposit ratio mean people holding cash more in hand and depositing less thus leading to decrease in money multiplier.
While an increase in deposit rates will **induce depositors to deposit more,** thereby leading to a decrease in Cash Deposit ratio. This will in turn lead to a rise in Money Multiplier.
Statement d is correct. The currency deposit ratio is a purely behavioural parameter which depends,

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among other things, on the seasonal pattern of expenditure. For example, CDR **increases during the festive season as people convert deposits to cash balance** for meeting extra expenditure during such periods.
Source: Macroeconomics, NCERT XII, Chapter-3, Money & Banking, Pg. 39
https://economictimes.indiatimes.com/definition/currency-deposit-ratio

Q.3) Which one of the following statements is correct with reference to deposit insurance facility provided by the Deposit Insurance and Credit Guarantee Corporation (DICGC)?
a) It does not apply to foreign banks operating in India.
b) Each depositor is eligible for an insurance cover of up to Rs. 5 lakhs.
c) The premium for the insurance is paid by the depositors in form of annual payment from their bank accounts.
d) The deposits of Central government or State governments in banks are not insured by the DICGC.

Ans) b
Exp) Option b is the correct answer
Statement a is incorrect. All commercial banks **including branches of foreign banks** functioning in India, local area banks and regional rural banks are insured by the DICGC.
Statement b is correct. The cover of Rs 5 lakh per depositor is provided by the Deposit Insurance and Credit Guarantee Corporation (DICGC). Deposits in public and private sector commercial banks, local area banks, small finance banks, regional rural banks, cooperative banks, Indian branches of foreign banks, and payments banks are all insured by the DICGC.
Statement c is incorrect. The **premium** for Deposit insurance is **paid by banks** to the DICGC and **not be passed on to depositors.** Banks currently pay a minimum of 10 paise on every Rs 100 worth of deposits to the DICGC as premium, which is **now being raised to a minimum of 12 paise**.
Statement d is incorrect. DICGC insures the following:
1) The DICGC insures all deposits such as savings, fixed, current, recurring, etc. deposits except the following types of deposits
2) Deposits of foreign Governments;
3) **Deposits of Central/State Governments;**
4) Inter-bank deposits;
5) Deposits of the State Land Development Banks with the State co-operative bank;
6) Any amount due on account of and deposit received outside India
7) Any amount, which has been specifically exempted by the corporation with the previous approval of Reserve Bank of India

Source: Changes to deposit insurance-ForumIAS Blog
https://www.dicgc.org.in/pdf/2021/PressRelease/AmendmentToDICGC_ActPassedByParliament.pdf
https://prsindia.org/billtrack/the-deposit-insurance-and-credit-guarantee-corporation-amendment-bill-2021
https://www.indiabudget.gov.in/economicsurvey/doc/eschapter/echap04.pdf

Q.4) With reference to Indian economy, what is 'Banker's Acceptance'?
a) It is a letter from a bank guaranteeing that the buyer's payment to a seller will be received for the correct amount.
b) It is a financial instrument that represents a bank's guarantee for the payment at a future date.
c) It is a direct payment method in which the issuing bank makes the payments to the beneficiary.
d) It is a secondary payment method in which the bank pays the beneficiary only when the holder cannot.

Ans) b

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Exp) Option b is the correct answer.

Option a is incorrect: A letter of credit is a letter from a bank guaranteeing that a buyer's payment to a seller will be received on time and for the correct amount. If the buyer is unable to make a payment on the purchase, the bank will be required to cover the full or remaining amount of the purchase. It may be offered as a facility.

Option b is correct: The banker's acceptance is a financial instrument that the bank (instead of the account holder) guarantees for the payments at a future date. Banker's Acceptance is a bill of Exchange drawn on and 'accepted' by a bank as its commitment to pay a third party. The parties involved in a banker's acceptance are the Drawer (the bank's customer), the Acceptor (a bank or an Acceptance House), the Discounter (a bank which could be the accepting bank itself or a different bank or a discount house) and the Re-discounter (another bank, discount house or the Central Bank). A Banker's Acceptance is accepted, when a Bank writes on the draft its agreement to pay it on maturity. The Bank becomes the primary obligator of the draft or bill of exchange drawn on and accepted by it.

Option c is incorrect: Commercial Letter of Credit is a direct payment method in which the issuing bank makes the payments to the beneficiary.

Option d is incorrect: Standby letter of credit is a secondary payment method in which the bank pays the beneficiary only when the holder cannot. A standby letter of credit is a bank's commitment of payment to a third party in the event that the bank's client defaults on an agreement.

Source: https://www.rbi.org.in/scripts/PublicationReportDetails.aspx?ID=190
https://www.investopedia.com/terms/l/letterofcredit.asp

Q.5) Consider the following statements regarding the doctrine of 'Responsibility to Protect (R2P)':
1. It is an international norm that puts an obligation on the Security Council to prevent the proliferation of nuclear weapons.
2. It was adopted in international law at 2005 United Nations World Summit.
Which of the statements given above is/are correct?
a) 1 only
b) 2 only
c) Both 1 and 2
d) Neither 1 nor 2

Ans) b

Exp) Option b is the correct answer.

Russia has invoked a controversial doctrine of right to protect or **Responsibility to Protect** (R2P) in context of Ukranian aggression.

Statement 1 is *incorrect*: The **Responsibility to Protect** – known as R2P – is an international norm that seeks to **ensure that the international community** never again fails to halt the **mass atrocity crimes of genocide, war crimes, ethnic cleansing and crimes against humanity**. The concept emerged in response to the failure of the international community to adequately respond to mass atrocities committed in Rwanda and the former Yugoslavia during the 1990s. It **does not put any obligation on Security Council** to prevent the proliferation of nuclear weapons.

Statement 2 is correct: The **International Committee on Intervention and State Sovereignty** developed the concept of R2P during 2001. The Responsibility to Protect was **unanimously adopted in 2005 at the UN World Summit**, the largest gathering of Heads of State and Government in history. It is articulated in paragraphs 138 and 139 of the **World Summit Outcome Document**. The principle of the Responsibility to Protect is based upon the underlying premise that sovereignty entails a responsibility to protect all populations from mass atrocity crimes and human rights violations.

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Source: Debunking Russia's international law justifications -ForumIAS Blog
What is R2P? - Global Centre for the Responsibility to Protect (globalr2p.org)
United Nations Office on Genocide Prevention and the Responsibility to Protect

Q.6) Consider the following statements regarding National Asset Reconstruction Company Limited (NARCL) and India Debt Resolution Company Limited (IDRCL):
1. The NARCL is responsible for valuing bad loans while the IDRCL is responsible for selling stressed assets in the market.
2. Both NARCL and IDRCL are wholly owned subsidiaries of the Reserve Bank of India.
Which of the statements given above is/are correct?
a) 1 only
b) 2 only
c) Both 1 and 2
d) Neither 1 nor 2

Ans) a
Exp) Option a is the correct answer.
Both the National Asset Reconstruction Company Ltd and India Debt Resolution Company were announced during the Annual Budget 2021-2022. These two entities will incentivize quicker action on resolving stressed assets, and help in better value realization. This approach will also permit freeing up banks personnel to focus on increasing business and credit growth.
Statement 1 is correct: The NARCL has been incorporated under the Companies Act and has applied to the Reserve Bank of India for license as an Asset Reconstruction Company (ARC). NARCL is basically a bad bank created by the government in the mould of an asset reconstruction company. The NARCL will pick up bad loans above a certain threshold from banks and would aim to sell them to prospective buyers of distressed debt. **The NARCL will also be responsible for valuing bad loans to determine at what price they would be sold.** The bad bank would provide government receipts to banks as it takes on non-performing assets from their books.
The IDRCL is a service company or an operational entity, which will manage assets and loop in market professionals and turnaround experts. **It will try to sell the stressed assets in the market.**
Statement 2 is incorrect: Both NARCL AND IDRCL are not wholly owned subsidiaries of Reserve Bank of India. For IDRCL Public Sector Banks (PSBs) and Public FIs will hold a maximum of 49% stake and the rest will be with private sector lenders. For NARCL, State-owned banks will hold 51% stake, while FIs or debt management companies will hold 49%.
Source: https://bfsi.economictimes.indiatimes.com/news/banking/what-are-narcl-and-idrcl-how-do-they-work-and-what-is-the-plan/86282175
https://indianexpress.com/article/explained/explained-bad-bank-stressed-assets-7747007/
https://www.indiabudget.gov.in/economicsurvey/doc/eschapter/echap04.pdf

Q.7) With reference to the Micro-Finance Institutions in India (MFI), consider the following statements:
1. All the micro-finance institutions are regulated by the Reserve Bank of India.
2. Overall share of the MFIs in extending microfinance loans to borrowers is not more than 50% in India.
3. In urban areas, MFIs cannot extend loans to households having annual household income exceeding Rs 1 Lakh.
Which of the statements given above is/are correct?
a) 1 and 2 only
b) 2 only
c) 2 and 3 only

d) 1 and 3 only

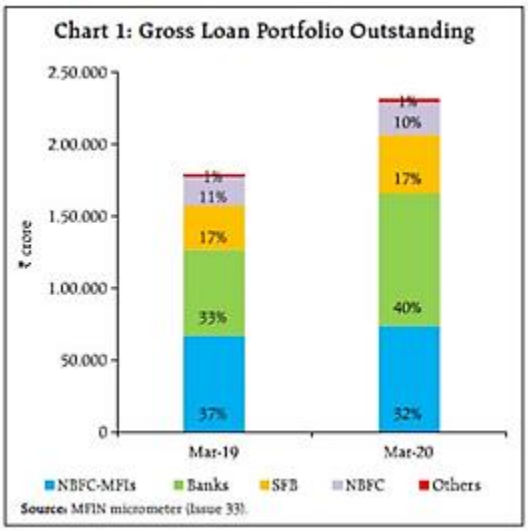
Ans) b

Exp) Option b is the correct answer.

Micro-Finance Institutions (MFIs) encompass a host of financial institutions engaged in advancing loans to low-income groups. For example, Non-Banking Financing Companies (NBFC)-MFIs, Banks, Small Finance Banks (SFBs), NBFCs and Non-profit MFIs are different categories of the Micro-Finance Institutions (MFI) working in India. These are microfinance loans having small amounts, with short tenures, extended without collateral and with the frequency of loan repayments greater than that for traditional commercial loans. Some facts related to this are.

Statement 1 is incorrect. RBI regulates Non-Banking Financing Companies (NBFC)-MFIs, Banks, SFBs, and NBFCs, **except** the **Non-profit MFIs**. Whereas, the Non-profit MFIs are mostly registered as Societies or Trusts, and are regulated by the respective Acts.

Statement 2 is correct. The **overall Gross Loan Portfolio (GLP)** of MFIs, i.e., outstanding amount of loans extended to microfinance borrowers is around **32%**. Further, NBFC-MFIs and Scheduled Commercial Banks (SCBs) hold a major chunk of the microfinance portfolio, with a combined share of 72 per cent as on March 31, 2020.



Statement 3 is incorrect. Microfinance loans mean **collateral-free loans** to households. It can be given to a household having annual household income not exceeding Rs. **1,25,000** in **rural areas** and **Rs 2,00,000 in urban/semi urban areas,** respectively.

Source: https://www.nabard.org/auth/writereaddata/tender/SoMFI-2020-21.pdf
https://indianexpress.com/article/business/banking-and-finance/mfi-framework-plan-rbi-for-limit-on-repayment-terms-no-rate-cap-7359314/
https://www.rbi.org.in/scripts/BS_ViewBulletin.aspx?Id=19775#C1

Q.8) With reference to Indian economy, consider the following statements:
1. Credit growth of banks has been steadily increasing during the last five years.
2. Credit intensity of Non-Banking Financial Companies has been rising steadily during the past ten years.
Which of the statements given above is/are correct?
a) 1 only
b) 2 only
c) Both 1 and 2
d) Neither 1 nor 2

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Ans) d

Exp) Option d is the correct answer.

Non-Banking Financial Company (NBFC) is a company registered under the Companies Act, 2013 NBFCs are engaged in the business of loans and advances, acquisition of shares/stocks/bonds/debentures/ securities issued by Government or local authority or other marketable securities of a like nature, leasing, hire-purchase, insurance business, chit business.

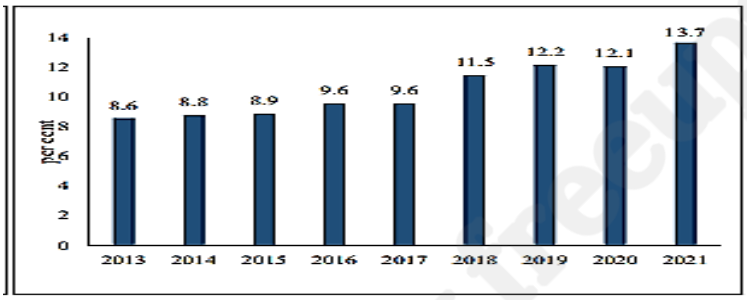
Statement 1 is incorrect: The credit growth had been declining since 2019. The credit growth was 5.3 per cent at beginning of April 2021 and started to increase since then, but was still modest and stood at 7.3 per cent as on 17th December 2021. However, the credit growth has picked up sharply in December to 9.2 per cent as on 31st December 2021.

Figure 13: Bank Credit growth (YoY)

Source: RBI

Statement 2 is incorrect: The credit intensity of NBFCs, measured by NBFC credit as a ratio of GDP has been rising and stood at 13.7 at end March 2021. Credit intensity was stagnant in 2017 compared to previous year. Also, it declined in 2020 compared to previous year.

Figure 16: NBFC's Credit to GDP Ratio



Source: Trends and Progress of Banking in India, RBI
Note: Data is at end- March; GDP data used is GDP at current market prices (base:2011-12

Knowledge Base: A non-banking institution which is a company and has principal business of receiving deposits under any scheme or arrangement in one lump sum or in installments by way of contributions or in any other manner, is also a non-banking financial company (Residuary non-banking company).
Source: https://www.indiabudget.gov.in/economicsurvey/doc/eschapter/echap04.pdf
https://www.rbi.org.in/Scripts/FAQView.aspx?Id=92

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Q.9) With reference to the monetary policy tools of the Reserve Bank of India, consider the following statements:
1. A Reverse Repo Rate is the interest rate at which the Central Bank gives loans to commercial banks.
2. Reserve Bank of India conducts Variable Rate Reverse Repo (VRRR) auctions to increase liquidity in the banking system.
Which of the statements given above is/are correct?
a) 1 only
b) 2 only
c) Both 1 and 2
d) Neither 1 nor 2

Ans) d
Exp) Option d is the correct answer.
The Reserve Bank of India has decided to merge the 28-day variable rate reverse repo (VRRR) auctions with the fortnightly 14-day main auction in view of the moderation in surplus liquidity.
Statement 1 is incorrect: Reverse repo rate is the interest rate paid to commercial banks when they deposit their excess funds in the central bank or when the central bank borrows money from them. In other words, it is the rate at which the RBI borrows from the commercial banks. When banks have excess funds but don't have any other lending or investment options, they deposit/lend the surplus funds with the RBI and earn interest on the deposited funds. It is always lower than repo rate.
Repo rate is the rate at which the central bank gives loans to commercial banks against government securities.
Statement 2 is incorrect: The decision of Reserve Bank India (RBI) to conduct **variable rate reverse repo (VRRR) auctions aims to absorb excess liquidity from the banking system.**
Source: https://www.indiabudget.gov.in/economicsurvey/doc/eschapter/echap04.pdf
https://www.rbi.org.in/Scripts/BS_PressReleaseDisplay.aspx?prid=53127
https://www.thehindu.com/business/variable-rate-reverse-repo-auctions-indicate-monetary-tightening-say-analysts/article35776458.ece
https://outlookmoney.com/magazine/story/variable-reverse-repo-rate-vrrr-934#:~:text=Repo%20rate%20is%20the%20rate,banking%20system%20via%20VRRR%20auctions.

Q.10) With reference to 'Indian Grey Hornbill', consider the following statements:
1. It is a fairly common hornbill species found only in the Indian subcontinent.
2. The male hornbill is slightly smaller than the female hornbill.
3. The bird is categorised as 'Vulnerable' under IUCN Red list of Threatened species.
4. Indian Grey Hornbill is being reintroduced in Gir forest after almost ninety years.
Which of the statements given above is/are correct?
a) 1, 2 and 3 only
b) 1 and 4 only
c) 2, 3 and 4 only
d) 3 and 4 only

Ans) b
Exp) Option b is the correct answer.
Statement 1 is correct: Indian Grey Hornbill (Ocyceros birostris) is a fairly **common hornbill species found only in the Indian subcontinent.** It is a medium-sized hornbill with a brownish-grey body.

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Indian Grey Hornbill

Statement 2 is *incorrect*: Indian Grey hornbill has a **curved ivory-coloured beak** that is long, blackish at the base, and has a sharp, narrow protruding casque. Male and female birds look very similar, though the **female is slightly smaller** and has a **less prominent casque** (an enlargement of the bones of the upper mandible or the skull, either on the front of the face, or the top of the head, or both).

Statement 3 is *incorrect*: Indian Grey Hornbill is categorised as '**Least Concern'** (not Vulnerable) under IUCN Red list of Threatened species. The species is found mainly on the plains up to about 2,000 ft (610 m). It is found from the foothills of the Himalayas southwards, bounded to the west by the Indus system and to the east by the Ganges Delta.

Statement 4 is correct: Gujarat Forest Department is reintroducing the Indian grey hornbill (IGH) in **Gir Forest after almost ninety years** when they vanished from this largest contiguous forest tract in western India.

Source: Indian grey hornbill reintroduced in Gir after decades -ForumIAS Blog

Indian Grey Hornbill: Unsung Hero of Urban Forests (round.glass)

Q.11) In India, the central bank's function as the 'lender of last resort' usually refers to which of the following?

1. Lending to trade and industry bodies when they fail to borrow from other sources
2. Providing liquidity to the banks having a temporary crisis
3. Lending to governments to finance budgetary deficits

Select the correct answer using the code given below.

a) 1 and 2
b) 2 only
c) 2 and 3
d) 3 only

Ans) b

Exp) Option b is the correct answer.

A lender of last resort is an institution, usually a country's central bank, that **offers loans to banks or other eligible institutions that are experiencing financial difficulty or are considered highly risky or near collapse.**

The lender of last resort functions is to **protect individuals** who have deposited funds and to prevent customers from withdrawing out of panic from banks with temporary limited liquidity. Commercial banks usually try not to borrow from the lender of last resort because such action indicates that the bank is experiencing a financial crisis.

Source) UPSC 2021

Q.12) The term 'Digital Payment Index' has been in news lately. In this context, consider the following statements:

1. This index has demonstrated significant adoption of digital payments in India in recent years.

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2. It is compiled by the National Payments Corporation of India (NPCI).
3. 'Payment performance' is the major parameter in this index.
Which of the statements given above is/are correct?
a) 1 only
b) 1 and 3 only
c) 3 only
d) 1, 2 and 3

Ans) b

Exp) Option b is the correct answer.

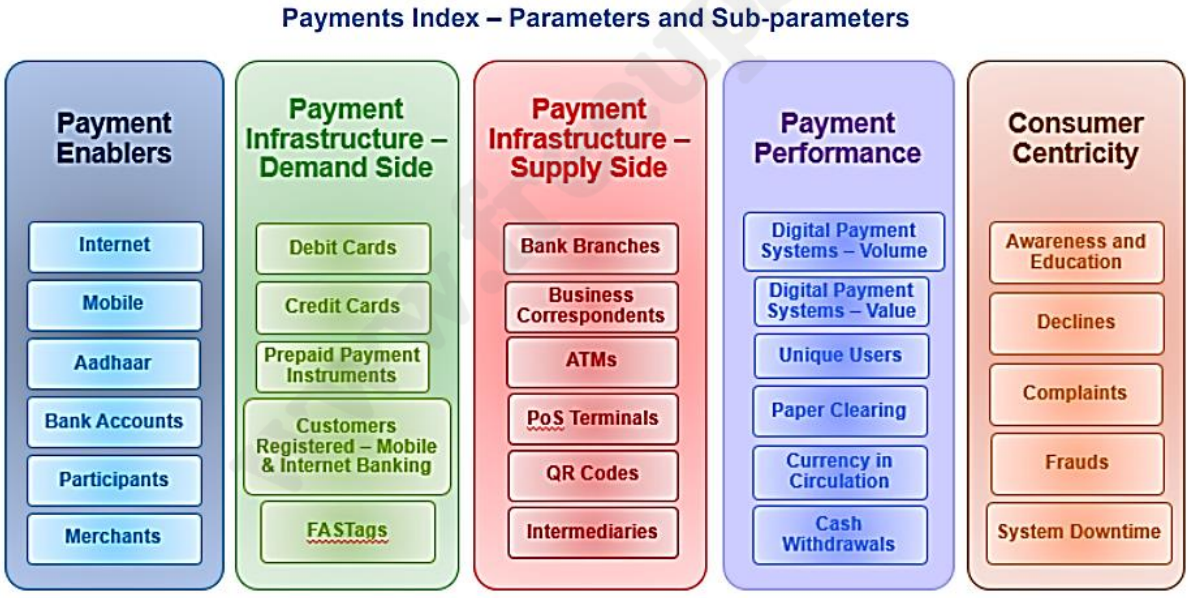
The Reserve Bank had announced construction of a composite Reserve Bank of India – Digital Payments Index (RBI-DPI) with March 2018 as base to capture the extent of digitization of payments across the country.

Statement 1 is correct: The Reserve Bank of India (RBI) has constructed a composite Digital Payments Index (DPI) to capture the extent of digitization of payments across the country. This index has demonstrated significant growth representing the rapid adoption and deepening of digital payments across the country in recent years.

Statement 2 is incorrect: It has not been compiled by The National Payments Corporation of India (NPCI). It is **issued by the Reserve Bank of India.** It has been constructed with March 2018 as the base period, i.e., DPI score for March 2018 is set at 100. It is published on RBI's website on a semi-annual basis from March 2021 onwards with a lag of 4 months. The index for March 2022 stands at 349.30 as against 304.06 for September 2021, which was announced on January 19, 2022.

Statement 3 is correct: The 'payment performance' is the major parameter in this index and carries the maximum weight. The RBI-DPI comprises 5 broad parameters that enable measurement of deepening and penetration of digital payments in the country over different time periods.

5 Parameters:
(a) Payment Enablers (weight 25%),
(b) Payment Infrastructure – Demand-side factors (weight 10%),
(c) Payment Infrastructure – Supply-side factors (weight 15%),
(d) Payment Performance (weight 45%) and
(e) Consumer Centricity (weight 5%).



Source: https://www.rbi.org.in/Scripts/BS_PressReleaseDisplay.aspx?prid=54100
https://www.moneycontrol.com/news/mcminis/economy/what-is-rbis-digital-payments-index-2-7967761.html
https://www.thehindubusinessline.com/money-and-banking/rbis-digital-payments-index-rises-to-34930-in-march-2022/article65690357.ece
https://www.indiabudget.gov.in/economicsurvey/doc/eschapter/echap04.pdf

Q.13) Consider the following statements in the context of cross border insolvency in India:
1. Insolvency and Bankruptcy Code (IBC) does not have any standard instrument to restructure the firms involving cross border jurisdictions.
2. The foreign creditors cannot make claims against a domestic company under the Insolvency and Bankruptcy Code.
3. At present, there is no international framework to deal with issues involving cross border insolvency.
Which of the statements given above is/are **incorrect?**
a) 1 only
b) 2 and 3 only
c) 3 only
d) 1, 2 and 3

Ans) b
Exp) Option b is the correct answer.
The Insolvency and Bankruptcy Code (IBC) has created a cohesive and comprehensive insolvency ecosystem. Cross border insolvency signifies circumstances in which an insolvent debtor has assets and/or creditors in more than one country. Typically, domestic laws prescribe procedures, for identifying and locating the debtors' assets; calling in the assets and converting them into a monetary form; making distributions to creditors in accordance with the appropriate priority etc. for domestic creditors/debtors. However, there are various insolvency cases in which corporations owes assets and liabilities in more than one country.
Statement 1 is correct: At present, Insolvency and Bankruptcy Code, 2016 (IBC) provides for the domestic laws for the handling of an insolvent enterprise. **IBC at present has no standard instrument to restructure the firms involving cross border jurisdictions.** The absence of standardized cross border insolvency framework creates complexities and raises various issues such as: The extent to which an insolvency administrator may obtain access to assets held in a foreign country and the Recognition of the claims of local creditors in a foreign administration.
Statement 2 is incorrect: Presently, while foreign creditors can make claims against a domestic company, the IBC currently does not allow for automatic recognition of any insolvency proceedings in other countries**.** Cross border insolvency is regulated by Section 234 and 235 of IBC. IBC empowers the Central Government to enter into bilateral agreements with other countries to resolve situations about cross-border insolvency.
Statement 3 is incorrect: The United Nations Commission on International Trade Law (UNCITRAL) on Cross-Border Insolvency, 1997 has emerged as the most widely accepted legal framework to deal with cross-border insolvency issues. It provides a legislative framework that can be adopted by countries with modifications to suit the domestic context of the enacting jurisdiction. It allows foreign professionals and creditors direct access to domestic courts and enables them to participate in and commence domestic insolvency proceedings against a debtor. It provides a framework for cooperation between insolvency professionals and courts of countries.
Knowledge Base: The United Nations Commission on International Trade Law (UNCITRAL) is the core legal body of the United Nations system in the field of international trade law. UNCITRAL secretariat is located

in Vienna, Austria. India was a founder member of UNICTRAL. It plays an important role in developing framework/ model laws for harmonization and modernization of the law of international trade including cross border insolvency issues.
Source: https://www.indiabudget.gov.in/economicsurvey/doc/eschapter/echap04.pdf

Q.14) With reference to capital market in India, which of the following statements is **incorrect?**
a) A 'Rights Issue' is an invitation to the existing shareholders to purchase additional new shares in the company.
b) An 'Initial Public Offering' denotes a transition from a public limited company to a private company.
c) A 'Qualified Institutional Placement' enables a company to issue shares to the public without going through standard regulatory procedures.
d) A 'Buyback' can help a company to reduce the number of shares available in the open market

Ans) b
Exp) Option b is the correct answer.
In the last financial year 2021-2022, the money raised by IPOs has been greater than what has been raised in any year in last decade by a large margin. Overall, during April-November 2021, `1.81 lakh crore has been raised through equity issues through diverse modes viz., public offerings, rights, Qualified Institutional Placements (QIP) and preferential issues.
Statement a is correct: A rights issue is an invitation to existing shareholders to purchase additional new shares in the company. This type of issue gives existing shareholders securities called rights. With the rights, the shareholder can purchase new shares at a discount to the market price on a stated future date. Through the rights issue the company is giving shareholders a chance to increase their exposure to the stock at a discount price.
Statement b is incorrect: An initial public offering (IPO) refers to the process of offering shares of a private corporation to the public in a new stock issuance for the first time. It also denotes **a transition from a private to a public company.** An IPO allows a company to raise equity capital from public investors. IPOs provide companies with an opportunity to obtain capital by offering shares through the primary market.
Statement c is correct: Qualified institutional placements (QIPS) are a way to issue shares to the public without going through standard regulatory compliance. QIP is a designation of a securities issue given by the Securities and Exchange Board of India (SEBI). QIP allows an Indian-listed company **(public company)** to raise capital from domestic markets without the need to submit any pre-issue filings to market regulators. QIPs were created to avoid dependency on foreign resources for raising capital. Qualified institutional buyers (QIBs) are the only entities allowed to purchase QIPs.
Statement d is correct: A buyback, also known as a **share repurchase**, is when a company buys its own outstanding shares to reduce the number of shares available on the open market.
Source: https://www.indiabudget.gov.in/economicsurvey/doc/eschapter/echap04.pdf
https://www.investopedia.com/investing/understanding-rights-issues/
https://www.investopedia.com/terms/q/qip.asp
https://www.investopedia.com/terms/i/ipo.asp

Q.15) Consider the following statements regarding Stree Manoraksha Project:
1. It is launched by National Institute of Mental Health and Neurosciences with support from the Ministry of Women and Child Development.
2. The project aims at providing mental support to elderly women facing isolation and loss of zeal to live a meaningful life.

Which of the statements given above is/are correct?
a) 1 only
b) 2 only
c) Both 1 and 2
d) Neither 1 nor 2

Ans) a
Exp) Option a is the correct answer.
During International Women's Day week, Union Minister for Women and Child Development has launched "Stree Manoraksha project".
Statement 1 is correct: Stree Manoraksha Project is launched by **National Institute of Mental Health and Neurosciences (NIMHANS), Bangalore, with support and funding from the Ministry of Women and Child Development.**
Statement 2 is *incorrect*: The project aims to provide **training and supervision in psychosocial and mental health care for staff and counsellors of all One Stop Centres (**OSCs) across the country to support women facing various forms of gender-based violence.
Source: Union Minister for Women & Child Development launches "Stree Manoraksha Project"-ForumIAS Blog

Q.16) With reference to Non-Banking Financial Companies (NBFCs), consider the following statements:
1. Unlike banks, Demand deposit are not accepted in NBFCs.
2. Unlike banks, no NBFC needs to maintain Capital Adequacy Ratio.
3. Deposits made in both banks and NBFCs are secured under Deposit Insurance and Credit Guarantee Corporation.
4. Some NBFCs are classified as 'systemically important' by the Reserve Bank of India.
Which of the statements given above are correct?
a) 1 and 4 only
b) 2, 3 and 4 only
c) 1 and 2 only
d) 1, 3 and 4 only

Ans) a
Exp) Option a is the correct answer.
A Non-Banking Financial Company (NBFC) is a company registered under the Companies Act, 1956. They raise loans and funds from their customers and advances to ultimate spenders. However, their principal business does not include activities like agricultural, industrial, purchase or sale of any immovable property.
Statement 1 is correct: The primary difference between NBFC and a bank is **NBFC cannot accept demand deposits** i.e., Saving and Current accounts. Although there are some deposits taking NBFC(NBFC-D), but they accept only Time Deposits e.g., Bajaj Finance.
Statement 2 is incorrect: Some **NBFCs need to maintain capital adequacy ratio**, as prescribed by the RBI. Under the existing regulatory framework for NBFCs, Systemically Important NBFCs are required to maintain a regulatory capital of 15% against its risk weighted assets.
The purpose of capital adequacy ratio (CAR) is availability of adequate capital a present to handle losses in the face of a risk. High CAR is considered good as they are in a better position to deal with unexpected losses.
Statement 3 is incorrect: Deposit Insurance and Credit Guarantee Corporation Act, 1961 provides insurance of deposits and guaranteeing of credits. DICGC **only insures bank's deposits.** It does not apply

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to non-banking financial companies (NBFCs). Hence, the repayment of deposits by NBFCs is not guaranteed by RBI.

Statement 4 is correct. NBFCs whose **asset size is of ₹ 500 crore or more as per last audited balance sheet are considered as 'systemically important' NBFCs by RBI.** The rationale for such classification is that the activities of such NBFCs will have a bearing on the financial stability of the overall economy.

RBI also releases the list of Domestic Systemically Important Banks (D-SIBs)

State Bank of India (SBI), ICICI Bank and HDFC Bank have been identified by RBI as Domestic Systemically Important Banks (D-SIBs).

Source: Indian Economy by Ramesh Singh. Chapter on Banking in India, pg no. 12.3- 12.4

Q.17) With reference to financial markets, which of the following statements is correct?

a) Capital market is a place where buyers and sellers indulge in trade of financial securities for a period of minimum five years.

b) A Primary market is one in which a company issues its new shares on a stock exchange.

c) The long-term financial market does not include stock purchases in the primary market.

d) Cash Management Bill is one of the important instruments in long term financial market.

Ans) b

Exp) Option b is the correct answer.

Statement a is incorrect. Capital market is a place where buyers and sellers indulge in **buying/selling of financial securities** like bonds, stocks. **(Not necessarily 5 years)**. The long-term financial market of an economy is known as the '**capital market'**. This market makes it possible to raise long-term money (capital), i.e., for a period of minimum 365 days and above.

Statement b is correct. A primary market is one in which a company issues **new security in stock exchange.** Whereas Secondary market deals with the exchange of prevailing or previously-issued securities among investors.

Statement c is incorrect. Long term financial market includes commodity and stock purchases in **both primary market and secondary market**. Primary market is the market for new shares or securities.

Statement d is incorrect. The Government of India, in consultation with the RBI, decided to issue a new short-term instrument, known as **Cash Management Bills,** since August 2009 to meet the temporary cash flow mismatches of the government. The Cash Management Bills are non-standard and discounted instruments **issued for maturities less than 91 days.**

Knowledge Base: Capital markets are used to sell different financial instruments, including equities and debt securities. These markets are divided into two categories: primary and secondary markets.

The best-known capital markets include the stock market and the bond markets. This market seeks to improve transactional efficiencies by bringing suppliers together with those seeking capital and providing a place where they can exchange securities.

Source: https://www.worldbank.org/en/publication/gfdr/gfdr-2016/background/long-term-finance#:~:text=Definition,public%20and%20private%20equity%20instruments.

Ramesh Singh Indian economy page: 341 (pdf)

Q.18) With reference to Open Market Operations (OMOs), consider the following statements:

1. It can be used for both increasing or decreasing the supply of money in the banking system.
2. It is conducted through E-Kuber platform of the Reserve bank of India.
3. Operation Twist is a type of OMO under which sale and purchase of Governments securities is conducted simultaneously.

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Which of the statements given above are correct?
a) 1 and 2 only
b) 2 and 3 only
c) 1 and 3 only
d) 1, 2 and 3

Ans) d

Exp) Option d is the correct answer.

Open market operations (OMOs) are an effective quantitative policy tool at the disposal of RBI. It helps in maintaining the impact on inflation and interest rate levels.

Statement 1 is correct: OMOs refers to the purchase and sale of government securities(G-sec), done by RBI on the government's behalf. When G-sec is bought, it increases the liquidity or money supply in the market on the other the hand when G-sec is sold, money supply is decreased, or liquidity is drained from the market.

Statement 2 is correct: RBI carries out the OMO through commercial banks and does not directly deal with the public. Eligible participants are required to key in their bids on **RBI's core banking electronic solution platform E-Kuber**.

Statement 3 is correct: Simultaneous purchase and sale of government securities under OMOs is popularly known as Operation Twist. It involves buying long-end debt while selling short-tenor bonds to keep borrowing costs down**.**

Operation Twist is a way employed by the central bank to manage yields in the market. It is a program of quantitative easing used by the RBI that was first introduced by the Federal Reserves in US in 1961.

Since prices and yields move in opposite directions, by purchasing longer-term bonds, the RBI can help drive the bond prices up and yields down. At the same time, selling shorter-term bonds should cause their yields to go up (since their prices would fall). In combination, these two actions twist the shape of the yield curve.

Source: Indian Economy by Ramesh Singh, chapter: Banking in India, pg no, 12.7
https://www.investopedia.com/terms/o/openmarketoperations.asp
https://www.investopedia.com/terms/o/operation-twist.asp#:~:text=Key%20Takeaways,to%20buy%20longer%2Ddated%20ones.

Q.19) In context of the Ways and Means Advances (WMA), often seen in news, consider the following statements:
1. It is a temporary loan facility provided by the Reserve Bank of India to State governments.
2. The interest rate charged on such loans is always equal to the Repo Rate.
3. WMA funding is much costlier than borrowings from the market.
Which of the statements given above is/are correct?
a) 1 only
b) 2 only
c) 1 and 2 only
d) 1, 2 and 3

Ans) a

Exp) Option a is the correct answer.

Ways and Means Advances (WMA) Scheme was introduced in 1997. Its objective is to meet mismatches in the receipts and payments of the government.

Statement 1 is correct: Ways and Means Advances (WMA) Scheme was introduced in 1997. These are **temporary loan facilities** provided by the **Reserve Bank of India** (RBI) to the **central and state**

governments to meet mismatches in the receipts and payments. The limits for WMA are decided by the government and RBI mutually and revised periodically.

Statement 2 is incorrect: There are two types of WMAs –1. Normal Ways and Means Advances; and 2. Special Drawing Facilities against government securities/Special WMA

The rate of interest applicable for Normal WMA funding from RBI is the repo rate **The interest levied for special WMAs could be lower than the repo rate due to the backing of government securities.**

Special WMA or Special Drawing Facility is provided against the collateral of the government securities held by the state. After the state has exhausted the limit of SDF, it gets normal WMA. **The interest rate for SDF is generally one percentage point less than the repo rate.**

Statement 3 is incorrect: WMA funding is much cheaper than borrowings from markets as it is charged at the repo rate. WMA can be an alternative to other tools of borrowing like raising longer-tenure funds from the markets, issue of State government securities or borrowing from financial institutions for short-term funding.

Source: https://blog.forumias.com/ways-and-means-advances/

Q.20) Consider the following statements:

1. The 1954 Hague Convention deals with the protection of cultural property in the event of armed conflict.
2. Blue Shield emblem is designated by European Union to provide resources for protection of World Heritage sites.

Which of the statements given above is/are correct?

a) 1 only
b) 2 only
c) Both 1 and 2
d) Neither 1 nor 2

Ans) a

Exp) Option a is the correct answer.

UNESCO is in contact with Ukrainian authorities to mark cultural sites and monuments with the distinctive "Blue Shield" emblem of the 1954 Hague Convention for the Protection of Cultural Property in the Event of Armed Conflict to avoid deliberate or accidental damages.

Statement 1 is correct: The convention for the **Protection of Cultural Property in the Event of Armed Conflict also known as the Hague Convention** was adopted in 1954 under the auspices of UNESCO. It aims to **protect cultural property** such as monuments of architecture, art or history, archaeological sites, works of art, manuscripts, books and other objects of artistic, historical or archaeological interest, as well as scientific collections of any kind regardless of their origin or ownership.

Statement 2 is incorrect: Blue Shield emblem is designated by **Hague Convention** (and not by European Union) to provide resources for protection of World Heritage sites. The **1954 Hague Convention designates an emblem** for a cultural **property that should be protected**, and for identification of those working to protect it. The Blue Shield organization (NGO) took up the emblem of the Convention as a symbol of their protective work, set in a blue circular background.

Knowledge Base:

Blue Shield: It was founded in 1996. It is an independent, neutral, non-governmental, non-profit, international organization which strives to protect heritage during armed conflicts and disasters across the world.

This includes all forms of cultural property including museums, monuments, archaeological sites, archives, libraries and audio-visual material, and significant natural areas, as well as intangible heritage.

Source: 1954 Hague Convention and "Blue Shield" emblem: UN cultural agency moves to protect Ukraine's heritage sites -ForumIAS Blog

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Q.21) An increase in the Bank Rate generally indicates that the:
a) Market rate of interest is likely to fall
b) Central Bank is no longer making loans to commercial banks
c) Central Bank is following an easy money policy
d) Central Bank is following a tight money policy

Ans) d
Exp) Option d is the correct answer.
Bank rate or discount rate is the rate of interest which a central bank charges on the loans and advances to a commercial bank. An increase in bank rate means that Central Bank is following a tight money policy. Under this situation, banks will have to pay higher rate of interest which will make borrowing costlier. Thus, banks need to raise to their lending rates to accommodate the increase in the bank rate.
Source) UPSC CSE Pre 2013

Q.22) With reference to the Reserve Bank of India (RBI), consider the following statements:
1. All Indian banks require a licence from the RBI for opening a new branch anywhere in India.
2. RBI manages the market borrowing programme of the state governments in India.
3. The interest rates on all categories of deposits and loans of banks are solely determined by the RBI.
4. The Central and the state Governments are required to maintain a minimum cash balance with the RBI.
Which of the statements given above is/are correct?
a) 2 and 4 only
b) 2 only
c) 1, 2 and 4 only
d) 1 and 3 only

Ans) a
Exp) Option a is the correct answer.
RBI was established under RBI act in 1935 as a private bank. It was converted into central bank after nationalisation in 1949.
Statement 1 is incorrect: For commencing banking operations in India, whether by an Indian or a foreign bank, a licence from the Reserve Bank is required. The opening of new branches by banks and change in the location of existing branches are also regulated as per the Branch Authorisation Policy. This policy has recently been liberalised significantly and **Indian banks no longer require a licence from the Reserve Bank for opening a branch at a place with population of below 50,000.**
Statement 2 is correct: RBI acts as the banker for government. **As the debt manager of the state governments, the mandate of the Reserve Bank is to manage the market borrowing programme of the state governments.** The function of management of public debt is done by the Internal Debt Management Department (IDMD) of the Reserve Bank. **IDMD of RBI manages the Market Borrowing Programme (MBP).** This involves issue and servicing aspects i.e., retirement of rupee loans, interest payment on the loan and handling operational issues.
Statement 3 is incorrect: The **interest rates on most of the categories of deposits and lending transactions have been deregulated and are largely determined by banks.** However, the Reserve Bank regulates the interest rates on savings bank accounts and deposits of non-resident Indians (NRI), small loans up to rupees two lakh, export credits and a few other categories of advances.
Statement 4 is correct:
All the State Governments are required to maintain a minimum cash balance with the Reserve Bank, which varies from state to state depending on the relative size of the state budget and economic activity.

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Under the administrative arrangements, the Central Government is required to maintain a minimum cash balance with the Reserve Bank. Currently, this amount is Rs.10 crore on a daily basis and Rs.100 crore on Fridays, as also at the end of March and July.
Source: statement 1: Indian economy by Ramesh Singh, chapter on Banking in India, pg no. 12.5
Statement 2:
https://rbidocs.rbi.org.in/rdocs/Publications/PDFs/RWF15012018_FCD40172EE58946BAA647A765DC942BD5.PDF
Statement 3: https://indianexpress.com/article/business/economy/financial-inclusion-index-inches-up-all-sub-indices-rise-rbi-8067235/
https://rbidocs.rbi.org.in/rdocs/Content/PDFs/FUNCWWE080910.pdf

Q.23) With reference to Priority Sector Lending (PSL), consider the following statements:
1. The guidelines for PSL in India are issued by the Reserve Bank of India.
2. Financing of certain types of start-ups are included under priority sector lending.
3. Foreign banks operating in India are exempted from priority sector lending.
4. Self Help Groups are considered as 'Weaker Section' to avail Priority sector loans.
Which of the statements given above is/are correct?
a) 1 only
b) 2 and 3 only
c) 1 and 4 only
d) 1, 2 and 4 only

Ans) d
Exp) Option d is the correct answer.
Priority Sector means those sectors which the Government of India and Reserve Bank of India consider as important for the development of the basic needs of the country and are to be given priority over other sectors. The banks are mandated to encourage the growth of such sectors with adequate and timely credit.
Statement 1 is correct: RBI issues guidelines for priority sector lending in India. It enlists the sector requiring financial and credit assistance from banks. At present commercial banks are required to maintain 40% quota for priority sector. RBI first time issued guideline in 1968 for priority sectors which included agriculture, small industries, and exporters till 1985.
Statement 2 is correct: In 2020, RBI has increased the scope of priority sector by including **financing of start-ups** with funding up to 50 crores and loans to farmers for installation of solar plants and compressed biogas plants. Revised PSL guidelines enable better credit penetration and increase the lending to small and marginal farmers and weaker sections.
Statement 3 is incorrect: As per the revised RBI guidelines **foreign banks with less than 20** branches as well as the foreign banks in India with more than 20 branches are required to **maintain 40 % of credit** to priority sector lending.
Statement 4 is correct. As per the RBI circular released in 2016, there are **eight broad categories** of the Priority Sector Lending. They are: (1) Agriculture (2) Micro, Small and Medium Enterprises (3) Export Credit (4) Education (5) Housing (6) Social Infrastructure (7) Renewable Energy (8) Others.
The others category includes personal loans to weaker section, loans to distressed persons, loans to state sponsored organisations for SC/ST.
Self Help Groups are considered as Weaker Sections to avail Priority sector loans.
Source: statement 1 : Indian Economy by Ramesh Singh , chapter on banking in India
Statement 2 : https://indianexpress.com/article/business/banking-and-finance/rbi-expands priority-sector-lending-categories-includes-start-ups-6583136/
Statement 3: https://www.rbi.org.in/Scripts/NotificationUser.aspx?Id=11959&Mode=0

Q.24) Consider the following pairs:

Monetary Policy stance of the Reserve Bank of India	**Action taken by the Reserve Bank**
1. Accommodative Stance	RBI may lower the interest rates
2. Neutral Stance	The policy priority of RBI is equal on both inflation and economic growth.
3. Hawkish Stance	RBI increases the lending rate of interest to the banks.
4. Calibrated tightening	RBI always reduces the Repo Rate

How many pairs given above is/are correctly matched?

a) One pair only
b) Two pairs only
c) Three pairs only
d) All four pairs

Ans) c

Exp) Option c is the correct answer.

Central banks' decisions rely on an assessment of their monetary policy stance.

Pair 1 is correct: An accommodative stance means the Monetary Policy Committee (MPC) is willing to either lower rates or keep them unchanged Accommodative monetary policy is a strategy used by central banks that is aimed **at keeping interest rates low** in order to infuse more cash into the economy to boost growth. Rate hike is ruled out. Inflation is not the immediate concern and hence RBI is willing to cut the interest rate.

Pair 2 is correct: Neutral stance indicates that central bank **may cut or hike interest rate**. Range of rates consistent with full employment, trend growth, and stable prices. An economy in this state presumably would not need to be stimulated or slowed by monetary policy. Hence policy **priority is equal on both inflation and economic growth.**

Pair 3 is correct: Hawkish stance indicates the tight monetary policy where main aim of central bank is to control inflation. RBI is in favour of high interest rate to curb the money supply in market.

Pair 4 is incorrect: Calibrated tightening refers to the non-obligation of increasing **repo rate at every policy** meeting in current rate cycle. So, RBI will either keep repo rate unchanged or may increase it. It will not reduce it. **But the overall stance is tilted towards a hike in the repo rate.**

Source: https://www.moneycontrol.com/news/business/explained-accommodative-neutral-and-hawkish-stances-in-rbi-monetary-policy-8066221.html

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Q.25) Consider the following pairs:

Rescue Missions	***Associated with***
1. Operation Sukoon	Evacuation of Indians after Iraqi forces invaded Kuwait
2. Operation Rahat	Evacuation of Indians as well as foreign nationals from war torn Yemen
3. Operation Ganga	Evacuation of Indian students from the War-torn Afghanistan

Which of the pairs given above is/are correct?
a) 1 and 2 only
b) 2 only
c) 3 only
d) 1 and 3 only

Ans) b
Exp) Option b is the correct answer.
Pair 1 is *incorrectly* matched: Operation Sukoon (2006): India evacuated not just Indians but also nationals of neighbouring countries with the help of the Indian navy when **conflict between Israel and Hezbollah broke out in 2006.**
1990 Kuwait airlift: Around 1,70,000 Indians were brought back home after Iraqi forces invaded Kuwait, kicking off the first Gulf War.
Pair 2 is correctly matched: Operation Rahat (2015): India evacuated nearly 4,000 citizens along with foreign nationals of 26 countries from war-torn Yemen.
Pair 3 is *incorrectly* matched: Operation Ganga (2022): The 700 Indian students were finally successfully evacuated from the **north-eastern Ukrainian city of Sumy** through **Operation Ganga**. **As a result of Indian diplomacy,** the Ukrainians and Russians agreed to provide safe passage to the Sumy students. A humanitarian corridor was established for extraction of students which was quite challenging to be established.
Source: Sumy success: With Operation Ganga winding down, India must now take a clear position on Ukraine crisis -ForumIAS Blog

Q.26) Consider the following statements:
1. An increase in the Cash Reserve Ratio may reduce the credit availability in the economy.
2. An increase in Repo Rates may result in an increase in the cost of borrowing.
3. Lower Bank Rates can help to lower the cost of funds for borrowers.
4. An increase in the Statutory Liquidity Ratio will tend to reduce money supply in economy.
Which of the statements given above are correct?
a) 2 and 3 only
b) 1 and 4 only
c) 1, 2 and 3 only
d) 1, 2, 3 and 4

Ans) d

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Exp) Option d is the correct answer.

Statement 1 is correct:

Cash Reserve Ratio (CRR): The average daily balance that a bank is required to maintain with the Reserve Bank as a per cent of its net demand and time liabilities (NDTL) as on the last Friday of the second preceding fortnight that the Reserve Bank may notify from time to time.

If the RBI decides to increase the CRR, then bank have to keep higher cash. **This will reduce the credit in the economy as the banks now have less money to lend,** less lending means less borrowing and investment and hence reduction in income and aggregate demand.

Statement 2 is correct:

Repos or Repurchase Agreements is an instrument which allows banks to borrow money from the RBI to manage short term needs of liquidity against the selling of government securities with an agreement to repurchase the same government securities at a predetermined date and rate. The rate at which the RBI lends to the banks is called Repo Rate.

An increase in repo rates means an increase in the cost of borrowing. This is because when the repo rate rises, the borrowing cost for banking institutions also rises, which is passed on to account holders in the form of higher loan and deposit interest rates.

Statement 3 is correct:

Bank Rate: The rate at which the Reserve Bank is ready to buy or rediscount bills of exchange or other commercial papers.

Managing the bank rate is a method by which central banks affect economic activity. **Lower bank rates can help to expand the economy by lowering the cost of funds for borrowers**, and higher bank rates help to reign in the economy when inflation is higher than desired.

Statement 4 is correct. Statutory Liquidity Ratio or SLR is a minimum percentage of deposits that a commercial bank has to maintain in the form of liquid cash, gold or other securities.

As SLR is increased banks will have to keep more liquidity with themselves. So, the less amount of funds will be available to the banks for credit creation. **The total money supply in the economy will decrease**, this will lead to less demand.

Source: statement 1 and 3: Indian Economy by Ramesh singh , chapter on banking in India page no: 12.6
https://www.rbi.org.in/Scripts/BS_CircularIndexDisplay.aspx?Id=12024
Statement 2: https://cleartax.in/g/terms/payment-banks

Q.27) With reference to Marginal Cost of Funds based Lending Rate (MCLR), consider the following statements:

1. It is the maximum rate of interest above which the banks cannot lend.
2. It replaced the earlier Base Rate structure of determining lending rates.
3. It is determined internally by the banks.

Which of the statements given above is/are correct?

a) 2 only
b) 2 and 3 only
c) 1 and 3 only
d) 1, 2 and 3

Ans) b

Exp) Option b is the correct answer.

Marginal Cost of Funds-based Lending Rate (MCLR) is a methodology to determine lending rates for banks. The Reserve Bank of India introduced the MCLR system on April 1, 2016.

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Statement 1 is incorrect: MCLR refers to the **minimum limit** below which banks or lender cannot lend. Because of slower transmission of monetary policy under MCLR, in 2019 RBI switched to the external benchmark linked lending rate (EBLR) system. Banks need to link their loan interest rate to external benchmark such as:
1) RBI repo rate
2) 91- day and 182 -day treasury bills.
3) any other benchmarks by financial benchmarks limited.
Statement 2 is correct: Earlier, Base Rate determines the lending rate. But base rate differed from bank to bank hence fell short of its aim at better assessment of transmission of monetary policy. Hence in 2015 banks shifted to new methodology of calculating their lending rate which is MCLR.
Statement 3 is correct: MCLR is a tenor-linked internal benchmark, which means the rate is determined internally by the bank depending on the period left for the repayment of a loan. Under the MCLR regime, banks are free to offer all categories of loans on fixed or floating interest rates.
Source: statement 1: https://www.rbi.org.in/Scripts/NotificationUser.aspx?Id=11677&Mode=0
https://indianexpress.com/article/explained/what-the-increase-in-mclr-means-for-you-your-loan-7877241/
statement 2: Indian economy by Ramesh Singh, chapter on banking in India, page no 12.8
statement 3: https://cleartax.in/s/mclr

Q.28) Which of the following factors leads to ineffective/weak transmission of monetary policy in India?
1. Asset-liability mismatch in Indian banking system
2. Lack of flexibility in interest rates of Term deposits
3. Higher interest rates offered by small saving schemes
4. Weak balance sheets of the banking sector
Select the correct answer using the code given below:
a) 1, 2 and 4 only
b) 3 and 4 only
c) 1, 2 and 3 only
d) 1, 2, 3 and 4

Ans) d
Exp) Option d is the correct answer.
Monetary policy transmission is the process through which policy action of the central bank is transmitted to meet the objectives of economic growth and maintaining optimum inflation. Traditionally, four key channels of monetary policy transmission are identified, viz., interest rate, credit aggregates, asset prices and exchange rate channels.
Statement 1 is correct: There are several factors which **impede monetary transmission to deposit and lending rates of banks.**
The factors include mismatch of banks' assets and liabilities, competitive pressure for small savings schemes, and assets quality of scheduled commercial banks.
Consequences of **asset-liability mismatch are interest rate risk and liquidity risk** as deposits are of shorter maturity, they are repriced faster than loans. This results in banks paying higher interest whenever a deposit matures and is rebooked. Hence having influence on transmission of monetary policy.
Statement 2 is correct: Around 58% of the total deposits are term deposits and 77% of the term deposits are for 1 year and above. **Most of the term deposits have fixed interest rate which means the transmission is effective only for fresh deposits**. Besides, banks have no incentive to decrease the deposit rate with the decrease in repo rate due to high operating expenses of savings accounts and already stressed balance sheets.

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Statement 3 is correct: Higher interest rates offered by competing saving instruments such as small saving schemes and debt mutual fund schemes have impeded transmission. The interest rates on small saving schemes, administered by the central government, in principle are set with a lag.

Statement 4 is correct:

Effective monetary transmission is impeded by weak balance sheets due to low loss-absorption capacity to deal with troubled loans. Increased cost of funds and liquidity crunch due to high NPAs impacting bank's profitability, further impacting transmission

Source: statement 1 :https://www.business-standard.com/article/finance/several-factors-still-hinder-monetary-transmission-to-bank-rates-rbi-121071800505_1.html#:~:text=The%20factors%20include%20mismatch%20of,hinder%20effective%20transmission%20of%20rates.

Statement 2: https://www.businesstoday.in/opinion/columns/story/monetary-policy-transmission-in-india-rbi-reserve-bank-of-india-central-bank-repo-rate-231896-2019-10-07

Statement 3:

https://rbidocs.rbi.org.in/rdocs/Bulletin/PDFs/02AR_1507202139851293AB184273A8507E80FE0668CF.PDF

Q.29) Consider the following pairs:

List I	**List II**
Term	**Description**
1. Certificates of Deposits	These can be issued by commercial banks and financial institutions.
2. Commercial paper	Unsecured and short-term debt instrument issued by corporations.
3. Cash Management bill	Issued to meet the temporary mismatches in the cash flow of the Government.

How many pairs given above are correctly matched?

a) Only one pair

b) Only two pairs

c) All three pairs

d) None of the above pairs

Ans) c

Exp) Option c is the correct answer.

Pair 1 is correct: Certificates of Deposits (CDs) **are issued by commercial banks and financial institutions to raise additional funds**. These are issued in multiples of 25 lakh, subject to a minimum amount of 1 crore. The maturity period ranges from three months to one year in the case of banks and one year to three years in the case of other financial institutions.

Certificate of Deposit (CD) is a negotiable money market instrument and issued in dematerialized form or as a Promissory Note against funds deposited at a bank or other eligible financial institution for a specified time period.

Similar to Fixed deposits, the CD aims to denote in writing that you have deposited money in the bank for a fixed period, and the bank would pay you interest - based on the amount and the period of your Deposit.

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Pair 2 is correct: Commercial paper is an unsecured, short-term debt instrument issued by corporations. It is typically used to the finance short-term liabilities such as payroll, accounts payable, and inventories. It was introduced in 1990.

Commercial Papers (CPs) are issued by Corporate, Primary Dealers (PDs) and the All-India Financial Institutions (FIs) to raise funds. These are issued in denominations of 5 lakh or multiples of it, subject to a minimum amount of 1 crore. The maturity period is three to six months.

Pair 3 is correct: Cash Management Bills (CMBs) are short term debt instruments issued to meet the temporary mismatches in the cash flow of the Government of India. The Cash Management Bills have the generic character of Treasury-bills but are issued for maturities less than 91 days. Like Treasury bills these are zero coupon bonds issued at a discount. In 2010, Government of India, in consultation with Reserve Bank of India introduced it.

Source: https://www.investopedia.com/terms/c/commercialpaper.asp

Indian economy by Shankar Ganesh. Chapter name-Indian financial system. Money market. Page no-209.

https://www.rbi.org.in/commonperson/English/Scripts/Notification.aspx?Id=797

Q.30) With reference to 'UPI 123Pay facility' recently launched by the Reserve Bank of India, consider the following statements:

1. UPI 123PAY method can initiate and execute transactions without the need for an internet connection.
2. Users can initiate a secured call from their phones to a predetermined Interactive Voice Response number to complete UPI based transaction.
3. Users can also install an app on phones through which certain UPI functions will be available on their phones.

Which of the statements given above are correct?

a) 1 and 2 Only
b) 2 and 3 Only
c) 1 and 3 Only
d) 1, 2 and 3

Ans) d

Exp) Option d is the correct answer.

Reserve Bank of India has launched new UPI service for feature phones called UPI123Pay. It has also launched a 24×7 helpline for digital payments called 'Digisaathi'.

Statement 1 is correct. UPI 123PAY is a **three-step offline method** to initiate and execute transactions that will work on simple feature phones. It will allow users to use feature phones for almost all transactions except scan and pay. The service **does not need an internet connection for transactions**. Users just need to link their bank account with their phones to use the service.

UPI123Pay offers users four options to make payments without internet connectivity-

Statement 2 is correct. Interactive Voice Response (IVR): Users would be required to initiate a secured call from their feature phones to a predetermined IVR number and complete UPI on-boarding formalities to start making financial transactions like money transfer, mobile recharge, EMI repayment, balance check, among others.

Statement 3 is correct. App-based functionality: One could install an app on feature phones through which several UPI functions, available on smartphones, will be available on their feature phone, except the **scan and pay** feature which is currently **not available**.

Missed call facility: The missed call facility will allow users to access their bank account and perform routine transactions such as receiving, transferring funds by giving a missed call on the number displayed at the merchant outlet. The customer will receive an incoming call to authenticate the transaction by entering UPI PIN.

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Proximity sound-based payments: One could utilize the proximity sound-based payments option, which uses **sound waves to enable contactless**, offline, and proximity data communication on any device.
Source: RBI launches UPI123Pay that allows UPI payments on feature phones -ForumIAS Blog
Reserve Bank of India - Press Releases (rbi.org.in)

Q.31) Under which of the following circumstances may 'capital gains 'arise?
1. when there is an increase in the sales of a product.
2. when there is a natural increase in the value of the property owned.
3. when you purchase a painting and there is a growth in its value due to increase in its popularity.
Select the correct answer using the codes given below:
a) 1 only
b) 2 and 3 only
c) 2 only
d) 1, 2 and 3

Ans) b
Exp) Option b is the correct answer.
Statements 2 and 3 are correct. Capital gain is an increase in a capital asset's value and is considered to be realized when the asset is sold. Realized capital gains and losses occur when an asset is sold, which triggers a taxable event. Unrealized gains and losses, sometimes referred to as paper gains and losses, reflect an increase or decrease in an investment's value but are not considered a capital gain that should be treated as a taxable event.
Statement 1 is incorrect. Increase sale of a product doesn't imply the increase of value of that product. So, no capital gain.
Source) UPSC CSE Pre 2012

Q.32) Consider the following statements with reference to the Exchange Traded Funds (ETFs):
1. Through ETFs, one can only invest in equities and not in debt instruments.
2. Compared to Mutual Funds, ETFs generally have higher liquidity.
3. ETFs can be actively bought and sold on the stock exchanges.
Which of the statements given above is/are correct?
a) 1 and 2 only
b) 3 only
c) 2 and 3 only
d) 1, 2 and 3

Ans) c
Exp) Option c is the correct answer.
An exchange traded fund (ETF) is a cluster of different securities merged together in a single fund that is traded on the stock exchange. It is a marketable security that tracks an index, a commodity, **bonds,** or a basket of assets like an index fund. An exchange-traded fund is a type of pooled investment security that operates much like a mutual fund. An ETF can be structured to track anything from the price of an individual commodity to a large and diverse collection of securities. ETFs can even be structured to track specific investment strategies.
Statement 1 is incorrect. An exchange traded fund (ETF) also allows a person to invest in debt instruments. Debt ETFs allow the investors to realise returns on their investments through exposure to fixed-income securities. Debt ETFs in India are sometimes referred to as bond ETFs due to their high exposure to bonds as the underlying asset.

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Statement 2 is correct. Exchange-traded funds (ETFs) have higher liquidity than mutual funds, making them not only popular investment vehicles but also convenient to tap into when cash flow is needed.
Statement 3 is correct: The main difference between ETF and Mutual Fund is that while ETFs can be actively bought and sold on the stock exchanges, just like any other shares. But one can only purchase a unit of a Mutual Fund from a fund house even though these can be listed on the exchanges.
Source: https://www.mutualfundssahihai.com/en/what-exchange-traded-fund-etf
https://www.mutualfundssahihai.com/en/what-exchange-traded-fund-etf
https://www.investopedia.com/terms/e/etf.asp

Q.33) Which of the following would most likely lead to a rise in the bond yields?
1. Rise in market interest rates
2. Increase in Fiscal Deficit
3. Rise in inflation
4. Increase in foreign investments
Select the correct answer using the codes given below:
a) 1 and 2 only
b) 2, 3 and 4 only
c) 1 and 3 only
d) 1, 2 and 3 only

Ans) d
Exp) Option d is the correct answer.
Option 1 is correct: Rise in market Interest Rates, will cause a fall in bond prices, as the higher interest rate will give investors better returns in bank deposits rather than the returns offered by the bonds. And as Bond Prices and Bond Yields are inversely related, a fall in Bond Prices would mean a **rise in Bond Yields, as market rates increase.**
Option 2 is correct: Fiscal Deficit of the government represents the amount of borrowings that the government has undertaken. An increase in Fiscal Deficit would mean that the government plans to spend more than its revenues by increasing its borrowing from the market. This leaves lesser capital for other economic players, making loans costlier (through an increase in interest rates). And as Interest Rates and Bond Yields are directly related (as explained above), there is an **increase in bond Yields when there is an increase in Fiscal Deficit.**
Option 3 is correct:
If there is a rise in inflation in the economy, the central bank will most likely follow a Dear Money policy and increase policy rates for other banks. Thus, making loans expensive, in order to suck out money from the economy. Thus, the result of increase in inflation, will be increasing interest rates. As **interest rates and bond yields are directly related, an increase in inflation will cause a rise in bond yields too.**
Option 4 is incorrect: If there is a rise in foreign investments in the country, it means an increase in investors' demand for the country's assets including bonds. As the demand for government/ corporate bonds increase, the bond price will also increase. This will lead to a decrease in the bond yield as bond price and bond yield are inversely related to each other. **Thus, the increased demand for the bond results in rising bond prices–and falling bond yields**.
Source: https://www.investopedia.com/ask/answers/why-interest-rates-have-inverse-relationship-bond-prices/
https://www.investopedia.com/ask/answers/061715/how-bond-yield-affected-monetary-policy.asp#:~:text=A%20bond%27s%20yield%20is%20based,and%20bond%20yields%20to%20rise.

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Q.34) Which of the following statements is/are correct in context to the Prompt Corrective Action (PCA) framework of the Reserve Bank of India (RBI)?
a) Capital, Asset Quality and Leverage are the key areas for monitoring in the PCA framework.
b) The PCA framework is applicable on both Payment Banks and Small Finance Banks.
c) Whenever PCA is enforced on a bank, it may face restrictions on branch expansions.
d) Both statements (a) and (c) are correct in the above given context.

Ans) d
Exp) Option d is the correct answer.
Prompt Corrective Action or PCA is a framework under which financial institutions with weak financial metrics are put under watch by the RBI.
Earlier the RBI had imposed PCA only on banks. Now the PCA framework is extended to NBFCs.
The move comes in the wake of large NBFCs such as IL&FS, DHFL, SREI Group and Reliance Capital getting into financial trouble over the last few years.
Statement a is correct. Capital, asset quality and leverage will be the key areas for monitoring in the revised PCA framework.
Indicators to be tracked for capital, asset quality and leverage would be CRAR/ common equity **tier I ratio, net NPA ratio and tier I leverage ratio**, respectively.
Statement b is incorrect. All Scheduled Commercial Banks are under the ambit of PCA framework (**Excluding Small Finance Banks, Payment Banks** and Regional Rural Banks).
Statement c is correct. PCA is enforced by RBI when banks breach certain regulatory requirements such as return on asset, minimum capital, and quantum of non-performing assets. Banks under PCA f**ace restrictions like dividend distribution, branch expansion, and management compensation or may require promoters to infuse capital in the bank.**
Source: https://www.rbi.org.in/Scripts/NotificationUser.aspx?Id=12208&Mode=0
https://rbi.org.in/scripts/NotificationUser.aspx?Mode=0&Id=12186#:~:text=Commercial%20Banks%0A(-,Excluding%20Small%20Finance%20Banks,-%2C%20Payment%20Banks%20and
https://www.rbi.org.in/Scripts/NotificationUser.aspx?Id=12186#:~:text=of%20foreign%20banks)-,to%20bring%20in%20capital,-Common%20menu
https://indianexpress.com/article/business/economy/pca-framework-revised-asset-quality-capital-leverage-key-7605004/#:~:text=Capital%2C%20asset%20quality%20and%20leverage,as%20per%20the%20revised%20framework.
https://indianexpress.com/article/business/banking-and-finance/rbi-brings-nbfcs-under-prompt-corrective-action-framework-7673400/
https://rbi.org.in/scripts/BS_SpeechesView.aspx?Id=1065

Q.35) Consider the following statements regarding Biological and Toxin Weapons Convention:
1. It was negotiated under the Conference of the Committee on Disarmament in Geneva, Switzerland in 1972.
2. The treaty allows for only the P5 countries to possess, produce and stockpile biological and toxin weapons while prohibiting their usage.
3. World Chemical & Biological Organisation is the implementation agency of the convention.
4. India has refused to ratify the treaty due to perceived discrimination in possession and production of weapons of mass destruction.

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Which of the statements given above is/are correct?
a) 1 only
b) 1, 2 and 3 only
c) 2 and 4 only
d) 1, 2, 3 and 4

Ans) a
Exp) Option a is the correct answer.
India has emphasized on following the Biological and Toxin Weapons Convention (BTWC) at the UNSC meeting on Ukraine.
The meeting came after a request from Russia who claimed that the US is involved in bioweapon manufacture in the war-torn country, something that the US has strongly dismissed.
Statement 1 is correct: The Biological Weapons Convention (BWC) was negotiated by the **Conference of the Committee on Disarmament in Geneva, Switzerland**. It opened for signature in 1972 and entered into force in 1975.
Statement 2 is incorrect: The convention effectively prohibits the **development, production, acquisition, transfer, stockpiling and use of biological and toxin weapons**. If a state possesses any agent, toxin, or delivery system for them, they have nine months from entry into force of the treaty to destroy their stockpiles, or divert them for peaceful use. **There is no exception to any countries for production and possession of biological and toxin weapons.**
Statement 3 is incorrect: There is **no implementation body of the Biological Weapons Convention**, allowing for blatant violations as seen in the past. There is a review conference every five years to review the convention's implementation and establish confidence-building measures.
Statement 4 is incorrect: The Convention has reached almost universal membership, with 183 States Parties and four Signatory States. **India is also a party to the convention.** Ten states have neither signed nor ratified the BTWC: Chad, Comoros, Djibouti, Eritrea, Israel, Kiribati, Micronesia, Namibia, South Sudan, and Tuvalu.
Source: Important to adhere to convention on biological weapons: India -ForumIAS Blog

Q.36) Consider the following statements with reference to the State Development Loans:
1. The purpose of issuing such loans is to meet the budgetary needs of state governments.
2. These loans are issued through normal auctions conducted by the Reserve Bank of India.
3. These securities do not qualify for Statutory Liquidity Ratio (SLR) status.
Which of the statements given above is/are correct?
a) 1 and 2 only
b) 2 and 3 only
c) 1 only
d) 1, 2 and 3

Ans) a
Exp) Option a is the correct answer.
Statement 1 is correct: State Development Loans are bonds that are issued by the state government to manage their state finances and fund their fiscal deficit. Each state is allowed to issue securities up to a certain limit per year. SDLs are traded at a spread above the benchmark G-sec security of the same tenor. The spread is based on the state finances.

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Statement 2 is correct: State Development Loans are issued in the primary market through normal auctions conducted by the Reserve Bank of India and traded in the secondary market. Interest on state development loan is serviced at half-yearly intervals and the principal is repaid on the maturity date.
Statement 3 is incorrect: SDLs qualify for Statutory Liquidity Ratio (SLR) status, that is a proportion of deposits to be maintained in liquid sovereign securities. So, investors are mainly nationalised banks, who on account of their huge deposit base have a large SLR requirement.
Source: https://economictimes.indiatimes.com/wealth/invest/5-things-to-know-about-state-development-loans/articleshow/90609281.cms
https://www.rbi.org.in/Scripts/BS_PressReleaseDisplay.aspx?prid=51712
https://www.fisdom.com/what-are-state-development-loans-sdl-why-are-they-issued/

Q.37) Consider the following statements regarding the Non-Resident Indian (NRI) Deposits made in Indian banks:
1. Such type of deposits are denominated in India's domestic currency only.
2. Such type of deposits are excluded from the Balance of Payments record of India.
Which of the statements given above is/are correct?
a) 1 only
b) 2 only
c) Both 1 and 2
d) Neither 1 nor 2

Ans) d
Exp) Option d is the correct answer.
Non-Resident Indian Deposits are foreign currency deposits made in an Indian bank by a non-resident Indian. These deposits can be repatriated by the NRI on maturity along with the interest earned. There are different kinds of schemes offered to NRIs like **FCNR (B) or foreign currency nonresident (banks) and non-resident external (rupee accounts or NRE (RA).**
Statement 1 is incorrect: Non-Resident Indian deposits are **foreign currency deposits** made in an Indian bank by a non-resident Indian. These deposits can be repatriated by the NRI on maturity along with the interest earned. There are different kinds of schemes offered to NRIs like **FCNR (B) or foreign currency non-resident (banks)** and non-resident external (rupee accounts or NRE (RA).
Statement 2 is incorrect: NRI deposits are included in the **capital account** under Balance of Payment. They have been an important source of foreign exchange in times of crisis. NRI deposits are capital flows and hence, vulnerable to outflows.
Source: https://economictimes.indiatimes.com/markets/stocks/news/learn-with-etmarkets-how-are-nri-deposits-different-from-remittances/articleshow/54668390.cms?from=mdr
https://rbi.org.in/scripts/FAQView.aspx?Id=52
https://www.livemint.com/news/india/dpiit-clarifies-on-fdi-status-of-nri-investments-11616163597415.html

Q.38) Consider the following statements with reference to Securities and Exchange Board of India:
1. Presently, it is functioning as a statutory body in India.
2. The Chairman of SEBI is nominated by the Union Government.
Which of the statements given above is/are correct?
a) 1 only
b) 2 only
c) Both 1 and 2
d) Neither 1 nor 2

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Ans) c

Exp) Option c is the correct answer.

Statement 1 is correct: Securities and Exchange Board of India was established as a non-statutory body without any statutory power. Following the passage of the **Securities and Exchange Board of India Act by Parliament in 1992, it was given autonomous and statutory powers.** Securities and Exchange Board of India is thus presently a statutory body and a market regulator, which controls the securities market in India. The basic functions of Securities and Exchange Board of India is to protect the interests of investors in securities and to promote and regulate the securities market.

Statement 2 is correct: The board consists of a Chairman and several other whole time and part time members. **The chairman is nominated by the union government.** The others include two members from the finance ministry, one member from Reserve Bank of India and five other members are also nominated by the Centre. The headquarters of Sebi is situated in Mumbai and the regional offices are located in Ahmedabad, Kolkata, Chennai and Delhi.

Source: https://www.business-standard.com/about/what-is-reserve-bank-of-india#collapse
https://www.business-standard.com/about/what-is-sebi#collapse

Q.39) "In this type of investment, a company may take controlling ownership in a business entity of another country. Foreign companies are directly involved with day-to-day operations in the business entity in other country. The foreign companies not only bring money, but also knowledge and technology."
The above description can be most appropriately summed up by which of the following?
a) Foreign Institutional Investment
b) Investment by Participatory Notes
c) Foreign Direct Investment
d) Offshore Derivatives Instrument

Ans) c

Exp) Option c is the correct answer.

Option a is incorrect: Foreign institutional investment is the portfolio investment by foreign institutions like mutual funds, insurance companies, pension funds, etc., in shares and debentures. Foreign institutional investors (FIIs) are those institutional investors which invest in the assets belonging to a different country other than that where these organizations are based.

Option b is incorrect: Participatory notes are often referred to as PNs or P-Notes. These are financial instruments used by investors and hedge funds to invest in the Indian securities, and no registration is required with the SEBI. Investments flowing in through PNs are considered as offshore derivative investments (ODIs).

Option c is correct: Foreign direct investment (FDI) a type of investment is when a company takes controlling ownership in a business entity in another country. With Foreign direct investment, foreign companies are **directly involved with day-to-day operations in the other country**. It means foreign companies not only bring money to other country but also knowledge, skills and technology. Foreign direct investment takes place when an investor establishes foreign business operations or acquires foreign business assets, including establishing ownership or controlling interest in a foreign company.

Option d is incorrect: Offshore derivatives instruments (ODIs) are investment vehicles used by overseas investors for an exposure in Indian equities or equity derivatives. These investors are not registered with SEBI, either because they do not want to, or due to regulatory restrictions. These investors approach a foreign institutional investor (FII), who is already registered with SEBI.

Source: https://economictimes.indiatimes.com/definition/fiis
https://www.business-standard.com/about/what-is-fdi

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https://enterslice.com/learning/foreign-venture-capital-investment-fvci-in-india/#:~:text=The%20term%20%E2%80%9Cforeign%20venture%20capital,and%20also%20proposed%20to%20make

Q.40) With reference to Cluster and Thermobaric weapons, consider the following statements:
1. Cluster Munitions are precision weapons to target small group of individuals.
2. Thermobaric weapons use oxygen from the air for a large-high-temperature blast.
3. There are no international treaties or convention governing the usage of Cluster and Thermobaric weapons.
Which of the statements given above is/are correct?
a) 1 only
b) 2 and 3 only
c) 2 only
d) 1, 2 and 3

Ans) c
Exp) Option c is the correct answer.
Statement 1 is *incorrect*: Cluster Munitions are **non-precision weapons** that are designed to injure **or kill human beings indiscriminately over a large area** and to destroy vehicles and infrastructure such as runways, railway or power transmission lines.
Statement 2 is correct: Thermobaric weapons also known as aerosol bombs, fuel-air explosives, or vacuum bombs – use oxygen from the air for a large-high-temperature blast.
A thermobaric weapon causes significantly greater devastation than a conventional bomb of comparable size.
Statement 3 is *incorrect*: There is a **Convention on Cluster Munitions (CCM)**. It is an international treaty adopted in 2008. It **prohibits the use, transfer, production, and stockpiling of cluster bombs.** Currently, 110 states are parties to the convention and 13 other countries have signed up but are yet to ratify it. Neither Russia nor Ukraine are signatories.
Thermobaric weapons are not prohibited by any international law or agreement, but their use against civilian populations in built-up areas, schools or hospitals, could attract action under The **Hague Conventions** of 1899 and 1907.
Source: Explained: What are cluster bombs and thermobaric weapons, allegedly used by Russia against Ukrainians?-ForumIAS Blog

Q.41) Consider the following statements:
1. The Reserve Bank of India manages and services Government of India Securities but not any State Government Securities.
2. Treasury bills are issued by the Government of India and there are no treasury bills issued by the state Governments.
3. Treasury bills offer are issued at a discount from the par value.
Which of the statements given above is/are correct?
a) 1 and 2 only
b) 3 only
c) 2 and 3 only
d) 1, 2 and 3

Ans) c
Exp) Option c is the correct answer.

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Statement 1 is incorrect. The Government securities comprise dated securities issued by the Government of India and state governments as also, treasury bills. As an agent of the Government, the Reserve Bank of India manages and services these securities through its public debt offices located in various places. **State Government Securities are issued by the state governments. These issues are also managed and serviced by the Reserve Bank of India.**

Statement 2 is correct. Treasury bills (T-bills) offer short-term investment opportunities, generally up to one year. They are thus useful in managing short-term liquidity. These bills are issued only by the central government, and the State governments do not issue any treasury bills.

Statement 3 is correct. T-bills are issued at a discount and are redeemed at par. At present, the Government of India issues four types of treasury bills, namely, 14-day, 91-day, 182-day and 364-day.

Source) UPSC 2018

Q.42) With reference to the Asset Reconstruction Companies (ARCs) in India, which of the statements given below is **incorrect?**

a) Banking Regulations Act, 1949 provides the legal basis for the establishment of ARCs in India.

b) They are regulated by the Reserve Bank of India as Non-Banking Financial Company.

c) They are not permitted to undertake lending activities in India.

d) ARCs in India are required to maintain the Capital Adequacy Ratio (CAR).

Ans) a

Exp) Option a is the correct answer.

Asset Reconstruction Company (ARC) is a specialized financial institution that buys the Non-Performing Assets (NPAs) from banks and financial institutions. It helps banks in cleaning up their balance sheets by buying their bad loans.

Option a is incorrect. The Securitisation and Reconstruction of Financial Assets and Enforcement of Security Interest (SARFAESI) Act, 2002 provides the legal basis to set up the Asset Reconstruction Company.

Asset Reconstruction Company (ARC) is a company registered under the **Companies Act** and registered with Reserve Bank of India under section 3 of The **Securitisation and Reconstruction of Financial Assets and Enforcement of Security Interest (SARFAESI) Act, 2002.**

Option b is correct. ARCs are regulated by RBI as a Non-Banking Financial Company [NBFC] (under RBI Act, 1934). They function under the supervision and control of the Reserve Bank of India (RBI).

Option c is correct. ARCs are **not permitted** to undertake **lending activities**. One ARC can be a sponsor or investor in another ARC or it can acquire debt from another ARC.

Option d is correct. The ARCs also have to maintain a **capital adequacy ratio** (CAR) of **15% of its risk-weighted assets.**

Capital Adequacy Ratio is also known as Capital to Risk (Weighted) Assets Ratio (CRAR)

A high CAR indicates that a bank has an adequate amount of capital to deal with unexpected losses. A lower CAR means, a bank is at a higher risk of failure.

Source: https://blog.forumias.com/asset-reconstruction-company-concepts-simplified-prelims-capsules-2021/

Q.43) With reference to Call money Market, consider the following statements:

1. It is non-interest-earning financial loan with a pre-fixed maturity date.
2. It is a short-term loan made by a financial institution to another financial institution.

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Which of the statements given above are correct?
a) 1 only
b) 2 only
c) both 1 and 2
d) neither 1 nor 2

Ans) b
Exp) Option b is the correct answer.
Statement 1 is incorrect. Call money, also known as "money at call," is a short-term financial loan that is payable **immediately, and in full, when the lender demands it**. **Unlike a term loan, which has a set maturity and payment schedule, call money does not have to follow a fixed schedule**, nor does the lender have to provide any advanced notice of repayment. **It is an interest paying loan** but due to its short-term nature, it does not feature regular principal and interest payments which longer term loans might.
Statement 2 is correct. Call money is a short-term, interest-paying loan from **one to 14 days** made by a **financial institution to another financial institution**. Due to the short-term nature of the loan, it does not feature regular principal and interest payments, which longer-term loans might. The interest charged on a call loan between financial institutions is referred to as the **call loan rate.**
Source: https://www.investopedia.com/terms/c/call-money.asp

Q.44) Which of the following statements correctly defines the term 'Credit Spread'?
a) It is the difference between the returns from two different debt instruments having the same maturity but different credit rating.
b) It is the difference between the interest rate that a bank charges on a borrower and the interest rate a bank pays to a depositor.
c) It is the difference between amount of credit availed by people in rural areas from a formal source and that from an informal source.
d) It is the difference between the repo rate and average interest rate charged by commercial banks.

Ans) a
Exp) Option a is the correct answer.
Option a is correct. Credit spread is the **difference between the yield (return)** of two different debt instruments with the same maturity but different credit ratings. In other words, the spread is the difference in returns due to different credit qualities. It is used to reflect the additional yield required by an investor for taking on additional credit risk. For example, if a 5-year Treasury note is trading at a yield of 3% and a 5-year corporate bond is trading at a yield of 5%, the credit spread is 2% (5% – 3%).
Source: https://corporatefinanceinstitute.com/resources/commercial-lending/credit-spread/
https://www.bankrate.com/glossary/b/bank-spread/
https://www.investopedia.com/ask/answers/052115/what-difference-between-optionadjusted-spread-and-zspread-reference-mortgagebacked-securities-mbs.asp
https://www.lexisnexis.co.uk/legal/glossary/option-adjusted-spread

Q.45) Consider the following statements:
1. The celestial signals from the early period of the universe are exceptionally faint.
2. Scientists have not yet deciphered the wavelength band of the signals from the early period of the Universe.
Which of the statements given above is/are the correct reasons for difficulty faced in detection of radio wave signals from an early period of the Universe?
a) 1 only

b) 2 only
c) Both 1 and 2
d) Neither 1 nor 2

Ans) c

Exp) Option c is the correct answer.

Indian astronomers have refuted the recent claim of a discovery of a radio wave signal from Cosmic Dawn, the time in the infancy of our Universe when the first stars and galaxies came into existence.

Statement 1 is correct: Detecting a **Radio wave signal from Cosmic Dawn**, the time in the infancy of our Universe when the first stars and galaxies came into existence, is **extremely difficult**. This is because the celestial signal is **exceptionally faint** – buried in sky radio waves that come to us from the gas in our own Galaxy, the Milky Way, which are a million times brighter.

Statement 2 is *correct*: Some Scientists from USA have claimed that they have deciphered the wavelength band of the signals from the early period of the Universe. However, the researchers from Raman Research Institute, an autonomous institute of the Department of Science & Technology, refuted this claim. So, this claim stands falsified and statement 2 becomes correct.

Detecting a faint signal from such an early period of the Universe is extremely difficult. The celestial signal is exceptionally faint – buried in sky radio waves that come to us from the gas in our own Galaxy, which are a million times brighter. Besides, this cosmic signal is in a radio wavelength band used by numerous terrestrial communications equipment and TV and FM radio stations, which makes detecting the extra-terrestrial signal extremely difficult.

Knowledge Base:

SARAS 3 Radio Telescope: SARAS 3 radio telescope was invented and built by the astronomers at **Raman Research Institute**, an autonomous research institute engaged in research in basic sciences.

The telescope was designed, built and deployed in India to **detect extremely faint radio wave signals from the depths of time, from our "Cosmic Dawn"** when the first stars and galaxies formed in the early Universe.

Source: SARAS 3 radio telescope refutes recent claim of the discovery of a radio wave signal from cosmic dawn -ForumIAS Blog

Q.46) Which of the following is the main aim of Standing Deposit Facility (SDF), recently introduced by the Reserve Bank of India?

a) To increase demand in the economy by increasing the money supply.
b) To absorb excess liquidity from the banking system in India.
c) To ensure effective monetary policy transmission at ground level.
d) To ensure that banks have enough capital to handle certain amount of losses.

Ans) b

Exp) Option b is the correct answer.

When banks have excess funds, they lend it to the RBI at the reverse repo rate in order to get returns from these extra funds. To execute the reverse repo rate functions, RBI needs government securities as collaterals.

Option b is correct. SDF is a monetary tool that allows banks to park their access liquidity with RBI without any collateral. RBI has introduced this tool to absorb excess liquidity in the market as it plays an important role in determining the policy rates.

Due to demonetization, funds with banks increased majorly and recently RBI also increased the reverse repo rate, these changes started attracting more funds towards the reverse repo operations. As the collaterals with RBI are limited in nature, it introduced a new facility known as Standing deposit facility,

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that allows RBI to execute reverse repo operations without using collaterals to absorb excess funds in the banking sector.
Banks too continue to earn interest (though possibly lower than the existing reverse repo rate). In effect, it will empower the RBI to suck out as much liquidity as needed.
Source: https://indianexpress.com/article/explained/everyday-explainers/what-is-standing-deposit-facility-7859803/

Q.47) Arrange the following events in a chronological order according to their year of occurrence:
1. Introduction of Kisan Credit cards
2. Enactment of FRBM Act
3. Setting up of Narasimham-I committee.
4. Establishment of National Bank for Agriculture and Rural Development.
Select the correct answer from the code given below:
a) 4-1-3-2
b) 3-4-2-1
c) 4-3-1-2
d) 3-1-4-2

Ans) c
Exp) Option c is the correct answer.
The correct sequence is: 4-3-1-2
4- National Bank for Agriculture and Rural Development was established in 1982 on the recommendation of B. Sivaraman Committee for the overall regulation and licensing of regional rural banks and apex cooperative banks in India.
3- The Ministry of Finance **set up Narasimham Committee – I in 1991** to analyse India's banking sector and recommend reforms. As India liberalized its economy in 1991, it was felt that banks were not performing efficiently. During the economic crises, it was recognized that banks have a crucial role to play in the economy and, hence, the banking sector had to be more competitive and effective.
1- The **Kisan Credit Card (KCC) scheme was introduced in 1998** for issue of Kisan Credit Cards to farmers on the basis of their holdings to help them to purchase inputs for the agriculture.
2- The Fiscal Responsibility and Budget Management (FRBM) Bill was introduced in the parliament of India in the year 2000 for providing legal backing to the fiscal discipline to be institutionalized in the country. Subsequently, the **FRBM Act was passed in the year 2003**.
Source:
https://www.rbi.org.in/commonman/English/Scripts/Notification.aspx?Id=2311#:~:text=The%20Kisan%20Credit%20Card%20(KCC)%20scheme%20was%20introduced%20in%201998,cash%20for%20their%20production%20needs.
https://www.nabard.org/content.aspx?id=2#:~:text=NABARD%20came%20into%20existence%20on,Gandhi%20on%2005%20November%201982.
https://www.rbi.org.in/Scripts/chronology.aspx

Q.48) With reference to Urban Co-operative Banks (UCBs) in India, consider the following statements:
1. These banks do not come under the regulatory jurisdiction of the Reserve Bank of India.
2. They can lend money only for the non-agricultural purposes.
3. UCBs are required to maintain stipulated levels of Cash Reserve Ratio (CRR) and Statutory Liquidity Ratio (SLR).

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Which of the statements given above is/are correct?
a) 1 and 3 only
b) 3 only
c) 2 and 3 only
d) 2 only

Ans) b
Exp) Option b is the correct answer.
Statement 1 is incorrect. The **Urban Banks Department of the Reserve Bank of India is vested with the responsibility of regulating and supervising primary (urban) cooperative banks,** which are popularly known as Urban Cooperative Banks (UCBs).
Statement 2 is incorrect: Till 1996, these banks were allowed to lend money only for non-agricultural purposes. **This distinction does not hold today**.
Statement 3 is correct: According to the RBI, all primary (urban) co-operative banks (UCBs) (scheduled as well as non-scheduled) are required to **maintain** stipulated level of cash reserve ratio (**CRR**) and statutory liquidity ratio (**SLR**).
Source: https://www.rbi.org.in/commonman/English/scripts/urbanbankdept.aspx
https://m.rbi.org.in/scripts/BS_ViewMasCirculardetails.aspx?id=9849
https://m.rbi.org.in/scripts/BS_ViewMasCirculardetails.aspx?Id=5155&Mode=0

Q.49) With reference to different types of assets of Indian banks, consider the following pairs:

	Type of Assets	Explanation
1.	**Sub-Standard Assets**	**Such assets are considered as uncollectible by the bank**
2.	**Doubtful Assets**	Such assets have not yet come under the category of 'Non-Performing Assets'
3.	**Loss Assets**	**Such assets are mandatorily written off from the bank's balance sheet completely**

How many of the above pairs are correctly matched?
a) Only one pair
b) Only two pairs
c) All three pairs
d) None of the pairs

Ans) d
Exp) Option d is the correct answer.
NPA or Non-Performing Asset are loans or advances where the customers do not repay principal amount and interest within an allocated certain period of time.
Pair 1 is incorrect. The **Sub-Standard Assets** are loans and advances which has remained NPA for a period less than or equal to 12 months. In such cases, the current net worth of the borrower is not enough to

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ensure recovery of the dues to the banks in full. These are characterised by the distinct possibility that the banks will sustain some loss, if deficiencies are not corrected.

Pair 2 is incorrect. Doubtful Assets are the Assets that has remained in the sub-standard category for a period of 12 months. The **Sub-Standard Assets** are loans and advances which **has remained NPA for a period less than or equal to 12 months.**

Pair 3 is incorrect. A loss asset is one where loss has been identified by the bank or internal or external auditors or the RBI inspection but **the amount has not been written off wholly**. In other words, such an asset is considered uncollectible and of such little value that its continuance as a bankable asset is not warranted although there may be some salvage or recovery value.

Source: https://www.fdi.finance/blog/what-is-npa-and-types-of-npa/
https://www.rbi.org.in/scripts/BS_ViewMasCirculardetails.aspx?Id=449

Q.50) Recently, government has approved the continuation of various sub-schemes under the Umbrella Scheme "Relief and Rehabilitation of Migrants and Repatriates". In this context, which one of the following is the nodal ministry for this umbrella scheme?

a) Ministry of External Affairs
b) Ministry of Minority Affairs
c) Ministry of Home Affairs
d) Ministry of Personnel, Public Grievances & Pensions

Ans) c

Exp) Option c is the correct answer.

The government has approved the continuation of the **seven existing sub-schemes** under the Umbrella Scheme "Relief and Rehabilitation of Migrants and Repatriates" for the period 2021-22 to 2025-26.

Relief and Rehabilitation of Migrants and Repatriates Scheme: The scheme aims to enable migrants and repatriates, who have suffered on account of displacement, to earn a reasonable income and to facilitate their inclusion in mainstream economic activities**. Ministry of Home affairs is the nodal ministry for the scheme.**

There are seven sub-schemes under Relief and Rehabilitation of Migrants and Repatriates Scheme namely:

1) Relief and Rehabilitation of displaced families of Pakistan Occupied Areas of Jammu and Kashmir and Chhamb.
2) Relief assistance to Sri Lankan Tamil refugees.
3) Relief assistance to Brus lodged in relief camps in Tripura.
4) Enhanced relief to 1984 Anti-Sikh Riot Victims.
5) Financial Assistance and other facilities to the families of affected civilian victims of terrorist violence including militancy, insurgency, communal/ Left Wing Extremism violence and cross border firing and victims of mine/IED blasts on Indian Territory.
6) Grants-in-aid to Central Tibetan Relief Committee (CTRC).
7) Grants-in-Aid to Government of West Bengal for infrastructure development in 51 erstwhile Bangladeshi enclaves in India, situated in Cooch Behar District and for resettlement of 922 returnees from erstwhile Indian enclaves in Bangladesh.

Source: Government has approved continuation of Umbrella Scheme "Relief and Rehabilitation of Migrants and Repatriates" -ForumIAS Blog

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